



## **Office of the City Auditor**

### **Travel Expenditures Follow-Up Report No. 0303**

January 15, 2004

All recommendations in the 2000 Travel Expenditures audit have been addressed and closed. Improved controls and the current structure are sufficient to meet Internal Revenue requirements for an accountable plan. Administrative Regulation 210 sets boundaries for appropriate business-related travel.

#### **CITY COUNCIL**

Mayor  
Mary Manross

Council  
Wayne Ecton  
Robert Littlefield  
Ned O'Hearn  
David Ortega  
Roberta Pilcher  
Tom Silverman



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January 15, 2004

To the Most Honorable Mary Manross, Mayor  
and Members of the Scottsdale City Council

Transmitted herewith is a report on the status of the recommendations related to travel expenditures outlined in Report No. 9950 released August 24, 2000. All recommendations in the 2000 audit have been addressed and are considered to be closed.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

*Cheryl Lee Barcala*

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP  
City Auditor

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## INTRODUCTION

A Travel Expenditures Follow-Up audit was included on the Audit Plan for 2002/2003. The work was undertaken to determine the status of the recommendations outlined in the Travel Expenditures audit conducted in 2000.

At the conclusion of the audit, the Office of the City Manager and Financial Services management were provided a copy of the report for review and comment. The complete text of the response is reproduced in Appendix A.

### Results in Brief

All recommendations in the 2000 Travel Expenditures audit have been addressed. We consider these recommendations to be closed.

Financial Services has improved controls over travel-related expenditures and the current structure would be sufficient to meet the Internal Revenue Service (IRS) requirements for an accountable plan. Administrative Regulation (AR) 210, dated June 24, 2003, is in place and sets boundaries for appropriate business-related travel.

AR 210 is detailed and provides guidance regarding reasonable travel expenses and miscellaneous expenses that will be reimbursed. Guidance is provided for personal expenses as well as those related to guests traveling with the employee.

Financial Services has budgeted business training and conference expenses in two accounts:

- Overnight Training/Business Travel Expenses (account 52230)
- Same Day Training/Business Expenses (account 52245)

This separation of accounts should make it possible to avoid commingling of expenses related to out-of-town travel expenses with those for local meetings, business luncheons, and award ceremonies as well as other operational expenditures made with City Procurement Cards.

Financial Services has prepared three forms that are required before and after traveling:

- Employee Request for Training and/or Travel
- Advance Travel Request (ATR)
- Post Travel Reconciliation (PTR)

All of the above forms require supervisory/management approval. Documentation is required to ensure that all advances and reimbursements are appropriately substantiated. Accounts Payable has initiated an Excel spreadsheet called *Travel Expenses Logs* to ensure that all forms, receipts, and final expense reconciliations are tracked.

In August 2003, the City entered into an arrangement with WorldTravel to be the City's travel agent. WorldTravel has agreed to provide the lowest fares possible for airfare, rental vehicles, and hotels.

To reach our conclusions we conducted several random samples of transactions. From these samples, we found that travel forms included appropriate documentation, expenditures in the Same Day Training/Business Expenses account appeared to be recorded appropriately, and hotel expenditures made with Procurement Cards could be traced to supporting travel documentation. Minor housekeeping items that came to our attention were discussed with management. These items included:

- In our sample of 63 PTR forms, 19 were not signed by the traveler. All 19 were related to Police Department travel and had an internal form attached which did have the traveler's signature.
- Three instances of high phone charges. As of September 2003, Accounts Payable sends a pre-paid calling card with per diem checks. This practice may reduce the potential for costly long-distance charges.
- Two instances in which Police Department employees elected the "fuel purchase option"<sup>1</sup> when renting vehicles in lieu of refueling before returning them to the rental agency. As a result, the City incurred the cost associated with higher fuel costs and refueling charges.
- Twenty-one out of 63 Employee Request for Training and/or Travel forms did not have the questions answered.
- One hotel charge on a Procurement Card could not be traced to documentation filed with Accounts Payable. Evidence was provided to indicate that departmental management approved the travel; however, required forms were not completed and submitted to Accounts Payable.

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<sup>1</sup> The "fuel purchase option" purchases the fuel in the vehicle at the time of rental. If the vehicle is returned with a significant volume of unused fuel, the City is, in effect, paying for fuel that is not used.

## BACKGROUND

When job duties require out-of-town travel, the City will pay business related costs such as airfare, hotel accommodations, meals, registration, and other ancillary expenses. For fiscal year 2002/2003, the City budgeted a little over \$814,000 to provide the funding for situations in which employees must travel for training, business negotiations, or other matters.

To manage this process, the City has an AR that details the policy related to travel, the process to follow when making arrangements, and the steps necessary to reconcile funds advanced to actual expenses. This AR, titled *City Travel Expenditures*, falls under the responsibility of the Financial Services Department.

The procedures set out in the AR serve multiple purposes. First, the guidelines control costs by setting parameters to define allowable expenditures. Second, the policies and procedures provide assurance that the City adheres to requirements set out by the IRS for an "accountable" plan. And, last but not least, the procedures ensure that the City maintains and retains the documentation necessary to demonstrate prudent use of taxpayer monies.

The documentation trail starts with the creation of an *Employee Request for Training and/or Travel* form. This form requires estimates for registration, lodging, per diem, and other expenses related to training or travel. It also lists questions the immediate supervisor/manager is to consider before approving and includes space for the signature of the employee's supervisor and an Assistant City Manager if overnight travel is involved.

Next, an *Advance Travel Request* form is completed by the employee (or on behalf of the employee) setting out the reason for the travel, dates and name of the sponsoring organization, and the estimated cost of the trip. The form is submitted to Accounts Payable with a copy of the approved *Employee Request for Training and/or Travel* form.

Accounts Payable logs the ATR into an Excel spreadsheet and processes any payments such as registration fees,<sup>2</sup> accommodations, and, if sufficient advance notice has been provided, an advance payment to the employee to provide funds for out-of-pocket expenses such as meals, ground travel, and other ancillary expenses. The amount to be advanced is calculated by multiplying the days (or portion of days, if travel occurs mid-day) by the per

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<sup>2</sup> In some cases, registration fees and other expenses may be paid with a City Procurement Card.

diem amount outlined in the AR. For all travel requests submitted since September 2003, Accounts Payable provides the traveler with a 60-minute long distance calling card.

To fulfill IRS requirement for a final accounting of funds advanced, a *Post Travel Reconciliation* form must be prepared and submitted within 21 days of the date the employee returns. The PTR is signed by the employee and the appropriate level of management and provides the final step in documenting all the expenditures related to the business travel.

Submittal of the PTR also provides the mechanism to reconcile amounts paid by the City in advance of the trip (by Procurement Card, direct payment to hotels, and travel advances) to the amounts incurred. If the City advanced more than needed, repayment is expected. Correspondingly, if expenses exceeded the amount advanced, the City will reimburse the traveler. Accounts Payable audits each travel request and an overall audit is completed at the end of the year.

To ease the record keeping requirements, IRS regulations provide for the payment of per diem, reasonably based, to cover meals and/or accommodations. There is no requirement for submittal of receipts when per diem is used. Under City policy, the City will pay either per diem (up to \$34) to cover the cost of meals or will reimburse reasonable and prudent expenses for meals if receipts are provided. The employee must elect one of the two options when completing the travel reconciliation and cannot commingle the election of per diem on one day of the trip and the submittal of receipts on another day.

To facilitate travel arrangements and consistency when employees need to travel, the City initiated the use of a citywide travel agent in August 2003. This arrangement piggybacks on a contract issued by the State of Arizona. Employees needing to travel are directed to make arrangements with this travel agent unless the employee can demonstrate that significant cost savings can be achieved by making other travel arrangements.

## STATUS OF RECOMMENDATIONS

### **DEVELOP A COMPREHENSIVE TRAVEL POLICY THAT OUTLINES MANAGEMENT EXPECTATION THAT TRAVEL-RELATED EXPENDITURES BE REASONABLE, PRUDENT, AND CONTROLLED IN AN APPROPRIATE MANNER.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

Management has developed comprehensive travel policies that travel-related expenditures be reasonable, prudent, controlled in an appropriate manner, and adhere to IRS requirements. AR 210 was last revised on June 24, 2003.

### **ESTABLISH COMPREHENSIVE MANAGEMENT POLICIES AND PROCEDURES OUTLINING EACH EMPLOYEE'S RESPONSIBILITY FOR FOLLOWING CITY POLICY REGARDING TRAVEL-RELATED EXPENSES.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

Management has developed comprehensive travel policies that outline employee responsibilities for travel-related expenses. Adequate preliminary planning to estimate expenses prior to the actual trip and obtain pre-authorization by an employee's supervisor/manager is captured on the Employee Request for Training and/or Travel form and the Advance Travel Request (ATR) form. Travel Requests are required to be matched to Travel Reconciliations for a final accounting of all expenses via a Post Travel Reconciliation (PTR) form. Original documentation, along with any required forms, is sent to Accounts Payable where it is retained for the required retention period.



**ESTABLISH CLEARLY DEFINED, SEPARATE CONTROL ACCOUNTS TO ENSURE THAT CITY TRAVEL EXPENDITURES ARE TRACKED SEPARATELY FROM EXPENDITURES FOR LOCAL BUSINESS MEALS, CONFERENCES, AND TRAINING. CONSIDERATION SHOULD ALSO BE GIVEN TO ESTABLISHING SUBSIDIARY ACCOUNTS FOR LODGING, VEHICLE RENTAL, OTHER TRANSPORTATION, AIRFARE, REGISTRATION, AND MEALS.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

There are clearly defined, separate control accounts for travel expenditures and local business meals, conferences, and training. AR 210 states that business training and conference expenses are to be budgeted in two accounts. They are, "Overnight Training/Business Travel Expenses" (account 52230) and "Same Day Training/Business Expenses" (account 52245). A management decision was made not to use subsidiary accounts for lodging, vehicle rental, other transportation, airfare, registration, and meals because they would be too cumbersome to budget. With other compensating controls currently in place, management believes that determining amounts for these items would not be difficult.

**REQUIRE DEPARTMENTS TO PREPARE A REQUEST FOR ADJUSTMENT, AT LEAST QUARTERLY, TO RECLASSIFY EXPENDITURES MADE WITH PROCUREMENT CARDS TO PROPERLY REFLECT THE CATEGORY OF EXPENDITURES.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

AR 210 requires that if a Procurement Card was used to pay any travel expenses, an accounting adjustment must be filed, at least quarterly. The adjustment should allocate travel-related expenses to the correct account so all City travel costs can be properly identified and audited. AR 220 places the responsibility with managers and cardholders to ensure that items are coded correctly. Accounting reviews all Requests for Adjustment to ensure that travel is properly coded.

**REQUIRE PERIODIC REVIEWS OF TRAVEL RECONCILIATION FORMS BY FINANCIAL SERVICES STAFF TO ENSURE AN APPROPRIATE LEVEL OF MONITORING.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

AR 210 requires routine audits of travel reconciliations to ensure they follow proper City of Scottsdale guidelines and IRS regulations. Accounts Payable audits each travel request and an overall audit is done at the end of the year.

**REQUIRE FINANCIAL SERVICES TO DEVELOP A SPECIALIZED TRAINING ON TRAVEL-RELATED EXPENSES FOR DEPARTMENTAL ADMINISTRATIVE SUPPORT STAFF, EMPLOYEES WHO WILL BE TRAVELING, AND BUDGET LIAISONS.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

Financial Services has developed training on travel-related expenses. Citywide training was provided when the new policies were established. One-on-one training is provided to those who are new to travel. If new changes were made to AR 210, Financial Services would provide citywide training.

**CONSIDER REQUIRING DEPARTMENTS TO DEVELOP DEPARTMENT SPECIFIC PROCEDURES TO ADDRESS UNIQUE TRAVEL REQUIREMENTS OF THAT DEPARTMENT.**

**Management Response:** Agree

**Status at August 24, 2000:** Planned

**Status at November 21, 2003:** Closed

Management has elected to use the procedures established by Accounts Payable. If there are exceptions to these procedures, travelers should indicate the exception on the ATR form so they can be dealt with at that time.

**CONSIDER ENTERING INTO A CITYWIDE CONTRACT WITH A TRAVEL AGENCY FOR TRAVEL ARRANGEMENTS.**

**Management Response:** Agree

**Status at August 24, 2000:** Planned

**Status at November 21, 2003:** Closed

The City initiated the use of a citywide travel agent, WorldTravel, in August 2003. This arrangement piggybacks on a contract issued by the State of Arizona.

**CONSIDER ESTABLISHING A MASTER ACCOUNT WITH A VEHICLE RENTAL AGENCY TO ENSURE THAT THE CITY RECEIVES A DISCOUNTED RATE WHEN IT IS NECESSARY FOR EMPLOYEES TO RENT A VEHICLE.**

**Management Response:** Agree

**Status at August 24, 2000:** Planned

**Status at November 21, 2003:** Closed

Because rental car discount cards are available and WorldTravel provides rental car service "at the lowest rate possible," a master account with a vehicle rental agency does not appear to be needed.

**REQUIRE RISK MANAGEMENT TO REVIEW LIABILITY ISSUES THAT ARISE.**

**Management Response:** Agree

**Status at August 24, 2000:** Underway

**Status at November 21, 2003:** Closed

Risk Management has reviewed liability issues related to travel when guests accompany an employee, when personal vehicles are used, and when a rental vehicle is used by a non-City employee. This information is included in AR 210 as it is to be reviewed annually and updated if necessary.

## SCOPE AND METHODOLOGY

The objective of the Travel Expenditures Follow-Up audit was to determine the status of the recommendations since the release of the Travel Expenditure audit dated August 24, 2000.

The scope was limited to travel during fiscal year 2002/2003. Audit testing took place September through December 2003.

We reviewed ARs to determine the policies and procedures related to travel expenditures. We interviewed the Accounting Director, Interim Payables Manager, Account Specialists, and Risk Management Director to gain an understanding of travel related expenditure practices as they currently exist in the City.

Travel documentation currently on file in Accounts Payable was reviewed as well as the current travel AR. Travel reports, detail expenditure reports, and the travel agency contract were also reviewed.

We completed three random samples:

- A random sample of travel documentation to determine if it was properly completed.
- A random sample of *Same Day Training/Business Expenditures* (account 52245) to ensure that expenditures were not related to *Overnight Training/Business Travel Expenses* (account 52230).
- A random sample to determine if Procurement Card charges for out-of-state hotels was traceable to travel documentation.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, §2-117, *et. seq.*

## APPENDIX A

### MANAGEMENT RESPONSE



#### Accounting

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January 13, 2004

Cheryl Barcala, City Auditor  
7440 East First Avenue  
Scottsdale, AZ 85251

Re: Travel Expenditures Follow-up – City Auditor report No. 0303

Dear Ms. Barcala:

We are in receipt of report No. 0303 entitled *Travel Expenditures Follow-up Audit* and concur with the status of recommendations. We want to thank you and your staff for your efforts on this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa A. Murphy".

Lisa A. Murphy, CPA  
Accounting Director